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SUBJECT: THE COMPETITIVENESS FORUM: A FRANK LOOK AT
MEXICO'S CHALLENGES AND OPPORTUNITIES

REF: MEX 06086

¶1. SUMMARY. The Special Commission for Competitiveness and Regional Development for the Mexican Chamber of Deputies held a forum to discuss the "Agenda to Promote the Competitiveness of the Nation" on March 7-9 in Mexico City. Attendees heard a wide range of viewpoints regarding the challenges the next administration will confront in order to raise the competitiveness of the Mexican economy, especially in light of international competition. Most of the speakers agreed that there is no panacea for enabling the Mexican economy to compete more effectively in the global marketplace, but instead positive change will depend upon durable political leadership with the ability and will to enact difficult reforms, foster a new openness to foreign investment, and expand educational and social opportunities to all. The attendees heard from representatives of the three leading presidential candidates, business leaders, government officials, and political analysts. END SUMMARY.

MORE COMPETITION NEEDED

¶2. Most of the representatives agreed that "crony capitalism" and the lack of competition in many sectors of the Mexican marketplace had resulted in higher prices, little innovation, and a generally weaker Mexican economy versus the economies of global competitors. Guillermo Ortiz Martinez, Governor of the Bank of Mexico, flatly stated that Mexico's ability to compete has been hurt by sectors of the economy controlled by monopolies. Mr. Ortiz pointed out the telecommunications sector, in which 94 percent of fixed telephone lines, and 80 percent of cellular services are controlled by one company (TelMex), thereby ensuring high prices and poor service. Political scientist Denise Dresser said that policymakers needed to ensure economic and educational opportunities for all instead of the few "at the top of the pyramid". She also demanded that policymakers enact real reform, instead of superficial agreements such as the Chapultpec Accord (reftel), an understanding between business and political leaders to support a climate of economic growth and increased investment which Dresser claimed was good for appearances but lacked substance. According to Dresser, "we cannot allow the wealth to be concentrated in the hands of the Azcarragas (owner of Televisa)...the Slims (owner of TelMex), at the expense of the Sanchez (ordinary Mexican)."

SLIM RESPONDS

¶3. Responding to criticism from Ortiz, Dresser, and others, Carlos Slim, the owner of TelMex and Mexico's richest man, rejected the notion that his company stifles competition and is to blame for the low competitiveness of the Mexican economy. Slim stated that Ortiz was responsible for the problem, by instituting high interest rates which inflate the

value of the peso. Slim also charged that Ortiz was a member of a group of policymakers who protect the electricity monopoly's high rates, in order to obtain revenue for public funding.

ENERGY SECTOR REFORM

¶4. Reform of the energy sector was an important feature of all three presidential candidates' plans. Nearly every speaker at the conference noted how high energy prices, coupled with fraud, waste, and abuse, were negatively affecting the Mexican economy. Mr. Ortiz illustrated how Mexico is currently wasting 16.2 percent of its energy, while the world average is 9.6 percent. He also claimed that 30 percent of electricity production is stolen. In addition, energy costs in Mexico are twice the average in the US, three times the average in China. Both Jorge Chavez Presa, spokesman for Roberto Madrazo (PRI), and Jorge Hinojosa Moreno, spokesman for Filipe Calderon (PAN), emphasized that substantial restructuring and reorganization of PEMEX may be necessary. Both also called for modernization of the energy sector infrastructure, with Hinojosa suggesting that private sector investment and cooperation with state-owned enterprises would be desirable. Rogelio Ramirez de la O, an advisor to Andres Manuel Lopez Obrador (PRD), did not emphasize internal reorganization of the sector, but stated that additional resources should be allocated in order to build at least two additional refineries, and to increase production of crude oil and natural gas. Saying "energy is an indispensable resource, reminding us how vulnerable we are", Ramirez argued that the increased production should be used internally, to cut imports and lower energy costs, rather than to increase tax revenues.

MORE RESEARCH AND DEVELOPMENT, PLEASE

¶5. Another central theme of the conference was the importance of creating policies which increased the level of research and development in the Mexican economy. According to Jesus de la Rosa Ibarra, a leader in the industrial sector, Mexico only spends 0.3 percent of GDP on R and D, while the world average is 4.8 percent. He claimed that "the speed and innovation isn't there (in Mexico). We need to forget about what was and look to the future." De la Rosa also pointed out that a higher percentage of Mexico's workforce is in the service sector of the economy (compared to the world average), and a greater emphasis should be put on encouraging the growth of value-added, high-skilled positions. Rene Villarreal, Undersecretary of Urban Development, illustrated that the world economy was transitioning from manufacturing to "mindfacturing," and that Mexico "couldn't just focus on cheap labor as a motor for growth." While there was consensus regarding the need for increased R and D and the sharing of ideas on a global basis, the speakers expressed doubt that the necessary reforms would be enacted.

POLITICAL WILL

¶6. Most speakers emphasized the need for the Mexican government to deregulate, open the economy to foreign investment, and increase the competitiveness and dynamism of the Mexican economy. However, there was also a general realization of the challenging nature of the task. According to Eduardo Perez Motta, President of the Federal Competition Commission, "we have to face the interest groups first." Isabel Guerrero, Director of the World Bank office in Mexico, stated that "there is no discipline or political will to confront interest groups." Some of the speakers blamed Mexico's divided govenment and term limits for providing a disincentive for Deputies and the President to take

accountability for difficult issues. Other speakers blamed malfeasance by governmental leaders, suggesting that in Mexico, politicians normally "bought the vote (through wasteful expenditures) instead of winning it."

COMMENT

¶7. There was nearly universal agreement by Mexico's political and economic leaders that, in order to face the global economic threats posed by China, India, and others, new strategies will need to be adopted. Despite being in a period when the US economic growth has been steady, inflation and interest rates low, and crude oil prices high, Mexican economic growth and export position versus China has been disappointing. The challenge for the new administration will be enacting difficult reforms in the face of extreme pressure from all-powerful interest groups, a task even optimistic observers doubt may be possible in the near term. However, the competitiveness conference demonstrated that there is broad consensus across most of the political spectrum regarding many of the solutions, which may be a first step.

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